



DEBRA K. DAVENPORT, CPA  
AUDITOR GENERAL

**STATE OF ARIZONA  
OFFICE OF THE  
AUDITOR GENERAL**

WILLIAM THOMSON  
DEPUTY AUDITOR GENERAL

February 21, 2003

Governing Board  
Flagstaff Unified School District No. 1  
3285 East Sparrow Avenue  
Flagstaff, AZ 86004

Members of the Board:

We have reviewed the District's single audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2001, as well as written correspondence between the District, the Coconino County School Superintendent's Office, and my Office, to determine whether the District satisfactorily complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District has failed to comply with the USFR.

To comply with the USFR, you must correct the deficiencies we have described in the enclosed summary within 90 days after the date of this letter.

During the 90-day period, the District may request a meeting with my Office to discuss its deficiencies by calling Gregg Rickert, Accounting Services Manager, or Magdalene Haggerty, Accounting Services Director, at (602) 553-0333. The District may also contact my Office for technical assistance.

A member of my staff will call Judith Lee, Executive Director for Business and Support Services, in several weeks to discuss the District's action to correct the deficiencies.

Sincerely,

Debra K. Davenport  
Auditor General

DKD/MH/gr

Enclosure

cc/enc: Mr. Larry R. Bramblett, Superintendent

Ms. Judith G. Lee, Executive Director for Business and Support Services

Flagstaff Unified School District No. 1

The Honorable Cecilia Owen, Coconino County School Superintendent

Ms. Vicki G. Salazar, Associate Superintendent of Financial Services

Arizona Department of Education

**FLAGSTAFF UNIFIED SCHOOL DISTRICT NO. 1**  
**SUMMARY OF DEFICIENCIES**  
**February 2003**

**Introduction**

Flagstaff Unified School District No. 1 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$83.7 million received in fiscal year (FY) 2001-02 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education. The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review, we determined that the District has not complied with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described below and on the following pages.

**The District lacked adequate controls over its accounting records**

The District did not maintain adequate control over its accounting records to ensure that all financial activities were properly processed and recorded.

- The District's cash balances had not been reconciled to the County Treasurer's cash balances since February 2002.

The District should ensure that the County School Superintendent's (CSS) records of cash balances are reconciled with the County Treasurer's records at least monthly and at fiscal year-end. If the reconciliations are not prepared by the CSS' Office, the District should reconcile its own records directly to the County Treasurer's and promptly resolve any differences. USFR pages VI-B-8 through 10

- The District did not properly post all payroll expenditures to its general ledger in a timely manner resulting in an overexpenditure of its FY 2001-02 budget by \$1,857,473, without proper approval.

The general ledger is the summary of the District's financial transactions and the basis for preparing trial balances and financial reports. Therefore, it is essential that the District maintain and follow proper procedures for, and provide adequate review of, the financial information recorded in its general ledger. To ensure that the District does not exceed its budget, these procedures should include posting total revenues, expenditures, and other financing sources and uses monthly from the appropriate journals to the general ledger accounts. USFR pages VI-B-5 and 6

# **FLAGSTAFF UNIFIED SCHOOL DISTRICT NO. 1**

## **SUMMARY OF DEFICIENCIES**

**February 2003**

- The District had deficit balances in numerous cash-controlled funds at June 30, 2001.

The District should verify that sufficient cash is available in a cash-controlled fund before submitting a voucher to the Governing Board for approval. Further, the CSS is prohibited by statute from drawing a warrant for an expenditure from a cash-controlled fund unless cash is available in the fund according to the records of the CSS. USFR pages VI-G-1 and 3 and Arizona Revised Statutes (A.R.S.) §15-304

- The District did not close the FY 2000-01 accounting records in a timely manner, as records were closed approximately six months after fiscal year-end. Consequently, amounts reported on the District's FY 2000-01 Annual Financial Report (AFR) did not agree to its final accounting records.

At the end of the 60-day encumbrance period, the prior year's revenues and expenditures should be closed to fund balances and fund balance amounts should be rolled over to the next year's accounting records. In addition, the District should ensure that all financial activity is accurately reported on the AFR. USFR page VI-B-10 and USFR Memorandum No. 190

- The District made numerous errors in its accounting records, as the following deficiencies were noted:

- Accounts receivable balances were not properly recorded.
- Several funds did not follow the USFR Chart of Accounts fund structure.
- Local, state, and federal revenues were miscoded in numerous funds.
- For 1 of 11 disbursements tested, the disbursement was incorrectly coded.

To provide accurate financial information and enhance comparability among districts, the District should record all transactions in accordance with the USFR Chart of Accounts (§III).

- For all five journal entries tested, the District did not ensure that the entry was properly approved by an authorized employee.

The District should ensure that journal entries include explanations, attachments, or references to document evidence supporting the entry, and the signature or initials of the employee who prepared the entry and the official authorized to approve it. USFR page VI-B-2

- The District did not reconcile its Auxiliary Operations Fund bank account to the related accounting records.

The District should prepare monthly bank reconciliations for its Auxiliary Operations Fund bank account, including reconciling the bank balance to the general ledger and investigating and resolving any differences between its accounting records and the bank's records. USFR pages VI-C-5 and 6

**FLAGSTAFF UNIFIED SCHOOL DISTRICT NO. 1**  
**SUMMARY OF DEFICIENCIES**  
**February 2003**

**The District lacked sufficient controls  
over expenditure and payroll processing**

The District did not have adequate controls in place to ensure that expenditures were properly approved and processed. The following deficiencies were noted.

- The District issued expenditure and payroll warrants using the CSS' electronic signature without the CSS' approval of the vouchers.
- The District processed at least four special payroll vouchers (totaling approximately \$66,300) in January 2002 without the approval or knowledge of the Governing Board or the CSS.

The District must ensure that all expenditures are properly approved before being processed. Specifically, payroll and expenditure vouchers submitted to the CSS must be approved by the District's Governing Board and the CSS must approve vouchers before warrants are issued. The District may only use the CSS' electronic signature to issue warrants if controls are in place to allow the CSS to verify that the District has adequate budget or cash balances, as applicable, and to place a hold on a specific voucher, fund, or warrant, if not. USFR page VI-H-5 and A.R.S. §15-304

- Several expenditure vouchers tested contained mathematical errors.

To help ensure accuracy, an employee not responsible for preparing vouchers should verify that expenditures included on the voucher supplement agree to supporting documentation and that vouchers and supplements are mathematically accurate. USFR page VI-G-4

- The District did not provide documents to the CSS to verify teacher certification before payroll warrants were issued.

To allow the CSS to comply with State law, the District should provide the CSS with teacher certification documents. A warrant for payment of a teacher's, substitute teacher's, or certified administrator's salary cannot be issued unless the CSS has first verified the employee's certification. A.R.S. §15-302(A)(9)

- Of 11 disbursements tested, 1 disbursement was supported by a purchase order that was not properly approved, and another disbursement was supported by a blanket purchase order that did not indicate an expiration date.

To help ensure that all District expenditures are properly approved and within budget or cash capacity, as applicable, the District should prepare and approve purchase orders before ordering goods and services. In addition, the District should ensure that blanket purchase orders state a specific period of time for use and a maximum dollar amount. USFR pages VI-G-3 and 8

- For three of seven travel disbursements tested, the District exceeded the maximum lodging amounts established by the Arizona Department of Administration (ADOA).

# FLAGSTAFF UNIFIED SCHOOL DISTRICT NO. 1

## SUMMARY OF DEFICIENCIES

February 2003

The District should ensure that lodging and per diem expenses incurred for District purposes are reimbursed within the ADOA prescribed limits. USFR Memorandum No. 176

### **The District did not always follow competitive purchasing procedures**

The District did not always follow the School District Procurement Rules for purchases estimated to cost more than \$31,338.70, the competitive sealed bid and proposal threshold in effect at the time, and the guidelines for competitive purchases below that amount.

- For nine purchases tested exceeding the competitive sealed bid threshold, the District did not always follow the formal bidding procedures. Specifically, the following deficiencies were noted:
  - For three purchases, the District did not obtain competitive sealed bids.
  - For four purchases, the District did not prepare a prospective bidders list and did not advertise the notice of the invitation for bids.
  - For one purchase, the District only advertised the notice of invitation for bids once.
  - For one purchase, the District awarded the contract to the only bidder without documenting that the price submitted was fair and reasonable, and that either other prospective bidders had reasonable opportunity to respond, or there was not adequate time for resolicitation.
  - For one purchase, the District did not review and approve the list of subcontractors for the vendor awarded the bid.
  - For one purchase, the District did not retain a copy of the original invitation for bids.
- For four of five competitive sealed proposals tested, the District did not document why sealed bids were either not practical or not advantageous to the District.
- For 4 of 11 purchases tested, costing at least \$15,000, but less than the competitive sealed bid threshold, the District did not obtain written price quotations.
- For six of eight purchases tested costing at least \$5,000, but less than \$15,000, the District did not obtain oral price quotations.

To help promote fair competition among vendors and ensure that the District receives the best value for its money, it must follow the School District Procurement Rules for purchases of construction, materials, or services exceeding \$32,313 (the current threshold). The District should also retain all documents necessary to demonstrate compliance with the rules. *Arizona Administrative Code (AAC) R7-2-1001 et seq and Records Retention and Disposition for Arizona School Districts*

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## **SUMMARY OF DEFICIENCIES**

**February 2003**

For purchases costing between \$5,000 and \$32,313, the District should follow the USFR guidelines for competitive purchasing below the dollar limits required for competitive sealed bids. Specifically, the District should obtain written price quotations from at least three vendors for purchases costing between \$15,000 and \$32,313 and oral quotations from at least three vendors for purchases costing between \$5,000 and \$15,000. The District should retain documentation of quotations received. If three price quotations cannot be obtained, the District should document the vendors contacted and their reasons for not providing a quote. USFR pages VI-G-8 and 9

- For the only sole source purchase tested, the Governing Board did not document its determination that there was only one source for the purchase.

To ensure compliance with the School District Procurement Rules for sole source purchases, the Governing Board should determine and document in writing that there is only one vendor for the required material, service, or construction item. AAC R7-2-1053

### **Other accounting and reporting deficiencies**

- The District did not take a physical inventory of food service supplies at June 30, 2001.

The District should take a physical inventory of food service supplies at fiscal year-end and prepare a supplies inventory list which includes all required information. USFR pages VI-D-4 through 6

- The District did not develop formal student attendance policies indicating whether attendance for elementary and junior high school students should have been based on half or quarter-days. As a result, the method of reporting student attendance differed among the individual schools.

In order for student attendance to be reported consistently among individual schools, the District should develop formal student attendance policies specifying whether attendance is based on half or quarter-day attendance. A.R.S. §15-901(A)(6)

- The District did not properly include all of its capital leases on the Arizona Department of Revenue Lease Purchase/Third-Party Financing Contract Report. Also, one operating lease was incorrectly listed on the report.

The District should ensure that it accurately reports its capital leases to the Arizona Department of Revenue.

- For 10 of 25 miscellaneous cash receipts tested, the District did not deposit the monies in a timely manner.

The District should deposit cash receipts intact daily, if significant, or at least weekly to minimize the risk of loss from theft or misplacement. USFR page VI-C-1

**FLAGSTAFF UNIFIED SCHOOL DISTRICT NO. 1**

**SUMMARY OF DEFICIENCIES**

**February 2003**

- Although the District disposed of surplus materials through Northern Arizona University during FY 2000-01, it could not locate its surplus property agreement.

The District should maintain support to document that it complied with R7-2-1131 of the School District Procurement Rules when disposing of surplus materials.